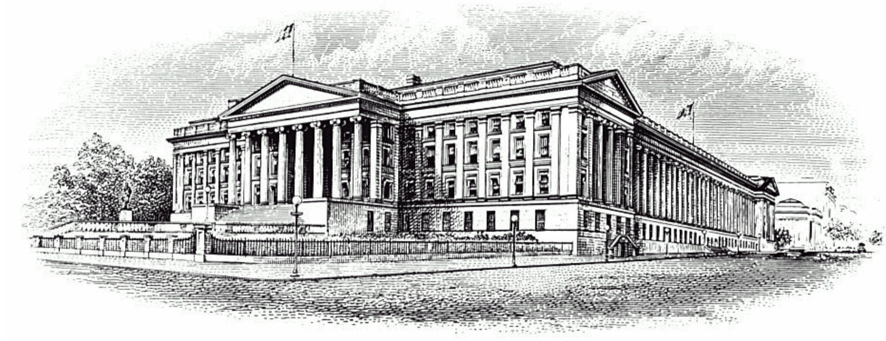

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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Treasury Secretary John W. Snow
Testimony Advocating the Renewal of the Fair Credit Reporting Act
Before the
Committee on Financial Services
United States House of Representatives
Washington, DC

Thank you, Chairman Oxley, Chairman Bachus, and Ranking Member Frank for this opportunity to testify today. Also, thank you for your very constructive hearings on the Fair Credit Reporting Act (FCRA) and consumer protections. Since April, Chairman Bachus alone has held 6 hearings and called 75 witnesses before his subcommittee. In addition, I have been impressed by the hard work reflected in the Bachus-Hooley bill, about which I will have more to say later in my testimony. We appreciate your efforts on this very important issue.

All consumers have two important interests, the promotion of which is the central purpose of the FCRA. All consumers have an interest in improved access to credit and other financial services. And all consumers have an interest in the accuracy and security of their financial information. The Administration proposes to remove the sunsets on the uniform standards and focus these standards and the FCRA even more on meeting these two key consumer interests.

A hallmark of our country is readily available credit. In fact, it is not too much to say that ready access to credit on competitive terms is an integral part of the economic security and well-being of American families. All over the country, Americans depend on competitive credit markets to realize the dream of home ownership, to finance their cars, and to pay for college. For example, more than two-thirds of Americans now own their own home, and 9 out of 10 homes are purchased with a mortgage. As another example, consumer credit helps finance the vast majority of the 15-17 million cars and trucks that consumers purchase annually.

The FCRA, with its uniform national standards for information sharing, operates to expand the opportunity for consumers to access credit and financial services – they make your reputation as a borrower portable, so that you don't have to establish your good name from scratch in every city you visit, or every store where you shop. The Council of Economic Advisers estimates that, if states passed laws that significantly deviated from the national uniform standards of the Fair Credit Reporting Act, 280,000 home mortgage applications that are now approved each year would be denied – that's $22 billion in new mortgages annually. Access to accurate and reliable financial information is particularly important for approving loans to first-time home buyers, for example.

This democratization of credit has especially benefited minority and lower income families. For example, from 1995 to 2001, the percentage of minorities holding mortgages increased significantly – one-sixth of minorities who qualified for mortgages in 2001 would not have qualified in 1995, a higher rate of improvement in home ownership than for families overall. In addition, the percentage of minority families with credit cards has risen substantially. From 1995 to 2001, the percentage of African American families holding credit cards rose from 39.4% to 55.8%. More generally, since, 1970, credit access by U.S. households in the bottom half of income distribution has experienced the most rapid growth. National uniform standards help all Americans participate more fully in the miracle of modern credit markets. We need to accelerate that process and do nothing to slow it down.

Perhaps the most serious threat to financial consumers today is identity theft. Identity thieves are clever, adaptable, and heartless. Indeed, many identity thieves specifically target the most vulnerable members of society – families of the recently deceased, seniors, hospital patients, and men and women serving our nation overseas. These schemes come in many forms. Let me share with you three illustrative cases.

- In May of 2002, a New Jersey woman received a notice from a North Carolina police department. The notice said that her husband had just committed a traffic violation in North Carolina. The problem? The woman's husband died 8 months earlier in the World Trade Center on September 11, 2001. Renewing her hope that her husband was alive, this woman contacted the police department that issued the notice, only to discover that a thief had stolen her husband's identity.

- A common scam involves identity thieves posing as officials of banks or government agencies. The thieves call the victims and demand personal information for official purposes such as IRS audits. Indeed, an identity thief has impersonated one of my staff. We learned about the impersonation only because an alert citizen called the Treasury Department to verify that the request for information was legitimate.

- Another scam is as audacious as it is heartless. Identity thieves impersonate hospital employees, walk into hospital rooms with a clipboard, and request personal information from patients. Unsuspecting patients can emerge from the hospital only to find that they have been victims of identity theft.

Many Americans have worked hard for years to build and keep good credit histories. In today's information-driven economy, one of your most important personal assets is your reputation, your credit history. One recent study estimates that nearly 12 million Americans have already become victims of identity theft. We shouldn't tolerate the theft of 12 million reputations any more than we would the burglary of 12 million homes. According to some estimates, identity theft will claim as many as one million new victims this year.

Further, one of the most distressing aspects of identity theft is how quickly an identity thief can damage your credit history and how long it can take to undo the damage. A recent General Accounting Office study found that victims spent <u>on average</u> 175 hours trying to recover from the crime. In many cases, recovery can take even longer, and involve thousands of dollars in legal and other expenses. The costs are so significant that a market in identity theft insurance is now developing.

Although our national information sharing system can and should be improved to do more in the fight against identity theft, it is important to understand that national standards for sharing such information are already an important tool in the fight against identity theft. When a thief tries to steal your identity and open an account in your name, he is posing as you, hiding behind a mask that he has constructed out of bits of information about your identity. Bankers or merchants can stop the would-be thief right in the act, before the crime is committed, if they have timely access to the right information. With the right information about your true identity, financial institutions can ask validating questions and peer behind the thief's mask. In other words, your banker can stop the identity thief if your banker is more familiar with you than the thief is. National uniform standards make timely access to full and accurate information possible, giving financial institutions the tools to stop many identity theft assaults before they can succeed.

The Administration has proposed several ways to make the Fair Credit Reporting Act an even more effective instrument to protect consumer financial data from fraud and abuse, enhancing the quality and integrity of that information, while at the same time expanding consumer access to credit and other financial services.

First of all, in achieving these important goals of the Fair Credit Reporting Act we would be wise to engage the consumers themselves. A basic tool to place in the hands of consumers is expanded access to free annual credit reports upon request. Consumers should be offered the opportunity to review their credit reports for accuracy and completeness. Consumers also should be provided more information about their credit scores, and how they can improve their credit profiles. We believe that this proposal will not only help stop identity theft, but that it will lead to improvement in the overall quality of the information in the credit reporting system. After all, no one has a stronger interest in ensuring the accuracy of their credit reports than consumers themselves. As the overall quality of the information improves, everyone will benefit – consumers, merchants, financial institutions, and the economy as a whole.

In addition, we recommend that the uniform standards include a national security alert system. Under such a system, consumers who have been victimized or are in danger of being victimized can put banks and merchants on their guard against any further efforts to impersonate the consumer, thus making it much harder to steal one's identity.

We also propose that the Fair Credit Reporting Act promote best practices for the sharing of credit information – including the blocking of fraudulent account information immediately upon notice, before bad information becomes too widely disseminated and exasperatingly difficult to remove.

Similarly, we propose to codify a policy for credit bureaus to share information immediately when an identity theft is discovered, the one-call-for-all standard.

In addition, we propose that the bank regulators be put on the watch for patterns followed by identity thieves, red flags that indicate the likelihood of fraudulent activity. The regulators would provide notice of these red flags to the institutions that they supervise and put them on the watch for these telltale signs. Further, the regulators would verify in their bank examinations that these warning signs are being heeded, fining those institutions that ignore them, resulting in customer losses. I regard this proposal to be a very important part of the package. One of the challenges in fighting identity theft is that identity thieves are adaptable. They are always looking for ways to exploit systems and procedures that we set up to thwart them. It is important, therefore, that regulators and financial institutions be equally adept in catching them. This proposal gives regulators the flexibility to adapt to new identity theft schemes and to establish procedures to thwart them and foil the efforts of the would-be thieves, and it gives financial institutions increased incentives to be on guard as well.

We also propose that the Fair Credit Reporting Act be amended to direct the Federal Trade Commission and bank regulators to make it easier for consumers to say no to unsolicited credit offers. Too often, consumers' options are hidden from view or are too difficult to understand or execute, and that should be fixed. Consumers obtain important economic benefits from pre-screened offers of credit, but their rights should be made more apparent.

These are a few highlights of the package of proposals we have offered, that would build upon and amplify the use of the FCRA to promote consumer access to credit within a context of improved accuracy and security of personal financial information. Enactment of this package will make our national information sharing system even more a servant of consumer interests.

Given the important role that the national standards of the Fair Credit Reporting Act play in expanding access to credit and maintaining the accuracy and security of consumers' information, it should come as no surprise that national information sharing standards benefit our economy as a whole. It seems so basic that we take it for granted, but an integral part of our economy's success is our confidence in financial services such as bank services, insurance, and investment products. Our credit markets helped the American economy weather the serious shocks we've experienced over the last three years – a recession, 9-11, homeland security, corporate accounting fraud and so on. And there should be no doubt that the national uniform standards of the Fair Credit Reporting Act help make our credit market more robust. According to the Council of Economic Advisors, if the national standards were to expire, and states adopted new laws currently under consideration, a minimum of 3.5% of loans currently approved would be denied to maintain the same level of credit risk. That is, at least $270 billion of the current total of just under $8 trillion in consumer credit outstanding could ultimately be in jeopardy.

I congratulate the sponsors of the Bachus-Hooley bill, for I believe that in terms of goals and approach, as well as in many details, it is akin to what the Administration has proposed. We look forward to working with this Committee and the sponsors of the Bachus-Hooley bill to move a strong package of reforms forward, to ensure that the Fair Credit Reporting Act becomes an even more effective tool for meeting the financial interests of American consumers. Accomplishing this task is vital to the future of our economy. With improved national standards, we can make great strides to protect our citizens against identity theft, while holding open the doors of credit to many more American families of every income and background.

Thank you.

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